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Walker, Edmund

Why Canada is against bimetallism

[London]

[1897]

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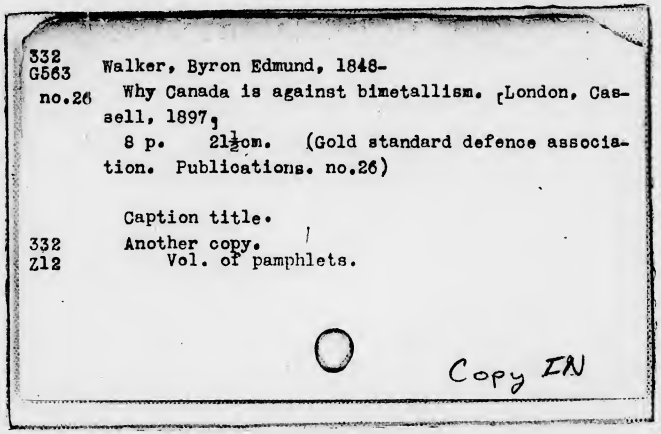

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G563
no.26 Walker, Byron Edmund, 1848-
Why Canada is against bimetallism. [London, Cassell, 1897]
8 p. 21½cm. (Gold standard defence association. Publications. no.26)

Caption title.

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GOLD STANDARD DEFENCE ASSOCIATION.

RT. HON. SIR JOHN LUBBOCK, BART., M.P., PRESIDENT.
RT. HON. LORD HILLINGDON, TREASURER.
HON. GEORGE PEEL, SECRETARY.

11 AND 12, CLEMENT'S LANE,
LOMBARD STREET,
LONDON, E.C.
July, 1897.

Why Canada is against Bimetallism.

By Mr. B. E. WALKER, of Toronto, Canada,

General Manager of the Canadian Bank of Commerce, and ex-President of the Canadian Bankers' Association.

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1. The southern boundary of Canada and the northern boundary of the United States run together from the Atlantic to the Pacific Ocean for about 3,850 miles. Elsewhere, except in the north, where it meets Alaska, Canada is bounded only by oceans. It is the source from which the United States must procure many of the products of nature, especially those which grow only, or grow best, in a northern climate. On the other hand, because of the greater development of manufactures in the United States, and because they grow certain products which cannot be produced in Canada, the latter country must always buy largely from them. **Although Canada, in common with almost all other countries, settles the final balance of its trading and financial operations in London, the more immediate clearing city for such operations in the case of both Canada and the United States is New York.** If Canada requires to pay London in excess of the bills which are being created by Canadian shipments to Great Britain, or to other countries which settle through London, it buys the bills for such excess in New York. If Canada has more exchange on London than is required by her importers, the surplus is sold in New York. Gold coin is occasionally shipped back and forth between Canada and New York; but this is a less frequent

me hod of settlement than by bills on London. Some of the Canadian banks have branches in New York, Chicago, and other cities of the United States, and both the grain crops of the west and the cotton crops of the south depend largely on these banks for money with which to buy and transport them, while the foreign exchange market of New York would lose one of its most important features were the Canadian banks to withdraw their agencies from that city. Such being the intimate trading and financial relations between the United States and Canada, **I wish to explain why Canada maintains so easily its position as a gold-standard country, and why its great and wealthy neighbour, the United States, also a gold-standard country, has been repeatedly threatened with the degradation of its standard from gold to silver.**

2. When the provinces of British North America entered into the Confederation known as the Dominion of Canada, they resigned their powers in the matters of banking and currency, and these were assumed by the Federal Government. There is, therefore, no conflict of authority on these subjects between the Federal and the Provincial Governments. When the Confederation known as the United States was formed, the original States were anxious to retain as far as possible their sovereign powers. They therefore conferred upon the Federal jurisdiction certain defined powers only, including the power to stamp metal as money. All powers not thus specially conferred on the Federal jurisdiction remained with the States, and under this balance of power the States have the right to create banks. The Federal Government also has power to create a bank as it has to create any business corporation; but, with the exception of the two semi-state institutions called in each case the "Bank of the United States," the Federal Government did not attempt to exercise this power until driven to do so by the exigencies of the war. **In the United States since the war both Federal and State Governments have continued to create banks, and neither is likely to surrender this power.**

BANKING AND CURRENCY IN THE UNITED STATES.

3. The first bank charters granted in the old province of Canada about 1820 were copied largely from that of the Bank of the United States, and until 1832 the banking systems in the two countries did not differ materially. Neither government had yet issued notes as money, and both left the creation of paper money to the banks, who were of course supposed to redeem in gold. In both countries banks were developing systems of branches, although the granting of charters by the several States instead of by the Federal Government tended to make the banks in the United States local in character instead of national, and the majority of these banks had no branches. There was, however, in the United States one bank, the semi-state institution called the Bank of the United States, which transcended in importance all others. Its relations to the Government on the

one hand and to the mercantile community on the other were not very different from those of the Bank of England or the Bank of France. It issued notes, had branches in the chief cities through which it effected a reasonably satisfactory distribution of loanable capital, dealt largely in foreign exchange, borrowed money abroad when necessary to increase its loans at home, and acted as banker for the Government. These were days when the commerce and land settlement of the country were fraught with unusual financial risks. Instead, however, of patiently studying the difficulties and gradually improving the system, the Bank of the United States became a political issue, and in 1832 President Jackson refused to renew its charter. The Bank of the United States continued to exist for some years under a State charter, but the Federal Government, in pursuance of its policy, transferred its banking business, then very considerable in consequence of payments for land, to various State banks. **The Government, however, found before many years that these State banks, individually weak as to capital, were not satisfactory as bankers, and the idea of the Government becoming its own banker, as far as possible, took shape in the present Treasury system.** For many years after this period such banks, working under State laws, as endeavoured to establish systems of branches were met with great animosity by the politicians who reflected the popular feeling that large banks were dangerous to the public welfare. Naturally the branch system did not thrive, and when the war broke out the inland banking business of the country was being done by a vast array of State banks individually weak as to capital, and having little power to cohere for any large financial transaction, while the foreign banking business was mainly carried on by private bankers.

4. Had the legislators of the United States carefully matured the system with which they began there would have been in existence at the outbreak of the war in 1861 great banks of international importance able to procure loans abroad and otherwise serve the Government financially. **But because there were no banks adequate to the situation, and because of the peculiar Treasury system, the Government, for the first time in its history, resorted to the issue of promissory notes, intended to circulate as money.** The first issue of these notes was payable on demand in coin, and was so redeemed, but suspension of specie payments followed within a few months, and the Government began a series of experiments in paper money of which the existing residuum is that body of notes sometimes called "war legal-tenders" or "greenbacks," and amounting to about 346,000,000 dollars.

5. **In order to aid in floating its bonds the Federal Government in 1863 and 1864 passed Acts creating the national banking system,** notwithstanding the strong opposition of the banks working under State laws; and in 1865, in order to

make the new Acts effective for the purpose of the Federal Government, a tax of 10 per cent. was levied upon the circulation of any bank-notes other than National Bank notes—that is, upon the notes of banks working under State laws. Under this system any national bank, upon depositing United States Government bonds with the Treasury, may issue notes, nominally the promises to pay of the bank, but of uniform design, guaranteed by the Government, and possessing such qualities as currency that redemption by the particular bank of issue is practically not required. Thus the circulation of notes by the State banks was brought to an end, and there were practically no bank-note issues left in the United States, the so-called "bank-notes" of the national banks being merely an enlargement of the paper issues of the Federal Government. In this manner a nation at one time accepting the sound principle that the function of the Government regarding currency was merely to certify to the weight and fineness of gold, silver, and other coined money, and that all credit instruments intended to pass as money should be issued by banks who would, by the circumstances of their business, be always able to issue enough, and yet, by the fact of daily redemption, be unable to keep in circulation too much, had now passed to the most dangerous of all theories regarding currency. **Thus the United States had accepted the theory that it was a proper exercise of power by a Government to enforce by law the passage of any instrument as money, and while some only sought to excuse such action by the necessities of the war, others were ready to argue that the power to issue paper money should be enjoyed only by the Government.**

PRESENT RESPONSIBILITIES OF THE UNITED STATES TREASURY.

6. I have no space to follow the subsequent course of events in the United States, of which the main features have already been indicated in No. 19 of this series by Mr. Horace White, the eminent American authority. Suffice it to say that by following the incorrect principles stated above, the United States Treasury now stands deeply involved. The issues for the redemption of which in gold the Government is directly or indirectly responsible were at 1st December, 1896, as follows :—

	Dollars.
Legal tenders authorised during the war	346,681,016
Silver certificates issued under the Bland Act, which are legal tender for payments to the Government	367,903,504
Legal tender notes issued for silver purchased under the Sherman Act	121,677,280
United States National Bank Notes	235,398,890
Total	1,071,660,690

From this it would be fair to deduct from one hundred to one hundred and fifty millions of dollars for cash held in the Treasury.

Against this mass of paper money the Treasury is supposed to

maintain a gold reserve of 100,000,000 dollars, but by repeated experience in recent years it has been seen that it cannot do this comfortably when trade relations make it necessary that the country should ship gold. **It is abundantly clear that the currency of the country cannot be placed on a sound basis until the Government redeems at least a portion of the above paper issues, and until a new banking system is devised which will permit the issue by the banks of notes against their general estate**—that is, not secured by the actual pledge of Government or other bonds, and subject to daily redemption, so that the ebb and flow of the aggregate of such notes shall adjust itself automatically to the requirements of trade.

BANKING AND CURRENCY IN CANADA.

7. When in 1792 the merchants of the chief city in Canada endeavoured to establish a bank under legislative authority, they proposed that it should transact the business "usually done by similar establishments"—viz., to receive deposits, ISSUE NOTES, discount bills, and keep cash accounts with customers. It was further proposed to OPEN BRANCHES "to extend the operations of the bank to every part of the two provinces (now known as Quebec and Ontario) where an agent may be judged necessary." Although there was at the time no law preventing the issue by private individuals of notes for circulation as money, the legislature refused to grant such powers to an incorporated bank. No charters were actually granted to joint-stock banks until 1820, but **the two principles of (1) a note issue against the general estate of the bank—that is, not specially secured—and (2) systems of branches for the gathering and distributing of loanable capital were recognised**; and the new joint-stock banks soon opened branches and took their position in the business world as institutions having a national instead of a local character. It has been already stated that much of the detail in these first charters was copied from that of the Bank of the United States, and it is interesting to note that many of these features are retained in the present Act, unaltered except as to the phraseology by which they are described. In the early days, owing to the poverty of the country and to inexperience, banking was subject to many vicissitudes, and the British authorities frequently sought to interfere. Although such suggestions were rarely accepted at the moment, they were often the cause of improved legislation at some later time, but we doubtless owe to the proposals of Lord Sydenham, referred to hereafter, the one serious blemish in our currency system.

8. In 1850, as a result of dissatisfaction in some portions of Western Canada with the facilities extended by the banks, a measure usually called the Free Banking Act was passed. Under it a bank might be organised with a very small capital, and might issue notes

based upon the security of the bonds of the Provincial Government. This was an imitation of the banking system of the State of New York, from which also the National banking system of the United States was largely copied. The old banks in Canada were not, however, forced to adopt the new system, and, as it was unsound in principle, it never gained headway, and in a few years came to an end. Lord Sydenham, as Governor-General in 1841 of the united provinces of Lower and Upper Canada, had suggested a Provincial Bank of Issue, the right to issue notes by the chartered banks to be cancelled, and suitable remuneration paid therefor. This was rejected by the people, and a similar proposal made in 1860 met the same fate. In 1866, however, owing to the pressure of the finances of the Provincial Government, an Act was passed authorising the issue by the Provincial Government of notes payable in specie, and to be a legal tender to an amount not exceeding eight million dollars.

9. In 1867 the two provinces comprising Old Canada, together with the provinces of Nova Scotia and New Brunswick, were confederated as the Dominion of Canada. The new Federal Government unfortunately did not abandon the issue of legal-tender notes. At the present time the maximum issue permitted of notes partially covered by specie is 20,000,000 dollars, and for all issues in excess gold must be held. Of the 21,600,000 dollars outstanding at 31st October, 1896, 8,200,000 dollars are in the shape of notes of denominations smaller than 5 dollars, bank issues being forbidden for such denominations. The remainder of the issue is mainly in notes of very large denominations held by the banks. The gold held by the Treasury Department at this date amounted to 10,000,000 dollars, nearly 50 per cent. upon the entire issue, or nearly 75 per cent. upon the large issues. The large issues are practically the only notes on which redemption in gold is from time to time required. The banking legislation in Nova Scotia and New Brunswick previous to confederation offered no difficulty to the adoption in 1870 of a General Banking Act following the lines of the system in use in Old Canada. Under the new system the charter of each bank is renewed for periods of ten years, all charters expiring at the same time. The banks all work under the General Banking Act, and at the Parliamentary session immediately before the charters expire this Act is re-enacted with such improvement as time has demonstrated to be necessary.

10. **The features with which we are mainly concerned are the note issue and the branch banking. A Canadian bank is permitted to issue notes intended for circulation as money, in denominations of 5 dollars and upwards, to the extent of its paid-up and unimpaired capital.** No securities are specially pledged for such issues. In the event of the insolvency of a bank each shareholder is liable for the debts of the bank to the extent of a sum equal to the face

NOTE.

The editor of the publications of the Gold Standard Defence Association has, by slightly altering the author's text, unintentionally caused an erroneous statement on page 7, beginning at the end of line 15 and continuing at lines 16 and 17. Holders of Canadian bank notes in early days, and before some of the features referred to in paragraph 10 had been adopted, did lose by the failure of a few banks. The point the author desires to make is that, had these features always been in force, "the past history of the country shows," that no note-holder would have suffered loss, and since these features were embodied in the Act "no holder of a Canadian bank note has lost anything thereby." From the past history and the experience under the present system, the author contends that there is practically no risk of loss to the holder of the note of any Canadian bank.

value of his shares. This is generally called the double liability. The note issues of a bank are a first lien upon all the assets of a bank, including this double liability, and prior to any lien of the Federal or of a Provincial Government. To avoid a discount on notes in circulation at a point remote from the establishments of the issuing bank, every bank must arrange for the redemption of its notes in certain designated cities of commercial importance throughout Canada. And to avoid discount at the moment of a bank's suspension, or thereafter, because of doubt as to the sufficiency of the assets for this particular liability, the banks as a whole maintain in the hands of the Government a fund equal to 5 per cent. of the aggregate of notes in circulation, upon which drafts may be made if the assets of the failed bank are insufficient. The notes of a failed bank carry interest at 6 per cent. per annum from the date of suspension until the receiver advertises his ability to redeem. **The past history of the country shows that no holder of a Canadian bank note has ever lost anything thereby, and the people understand the security afforded so well that the note of a suspended bank passes without difficulty.** The aggregate capital of the Canadian banks at present is about 61,700,000 dollars; the highest circulation during the past year was 36,300,000 dollars, and the lowest 29,400,000 dollars. It will therefore be seen that should an unusual expansion of the currency beyond the maximum named be suddenly required—a thing only theoretically possible in Canada—there is a reserve power to issue of about 70 per cent. It will also be observed that about 23 per cent. more notes are required to do the business in the active or crop-moving period of the year as compared with the dullest period. The average circulation for the past year was 50·76 per cent. of the paid-up capital. Not only was the required circulation supplied with perfect ease, but, what is of equal importance, it was forced out of circulation immediately it was not required.

11. **The emission and redemption of these notes, the absorption of bank deposits and the making of bank advances, is effected in Canada by 37 banks with about 500 branches.** There is nothing new in this to the European mind, and it is introduced here only to mark the contrast with the United States. The result of the branch system is that the loanable capital is directly gathered where it can be found and directly lent where it is required. The rate to the borrower is neither subject to violent fluctuations because of panic nor to widely varying rates for geographical reasons, and the borrower with good security is able to borrow at fair rates, while the note issues afford a circulation both elastic and secure.

WHY CANADA IS NOT TROUBLED WITH A BIMETALLIC AGITATION.

12. In conclusion, I wish to emphasise the following points :—

a. **The agitation in the United States in favour of the unlimited coinage of silver is simply the form in which the**

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discontent with existing conditions is expressed by those who do not understand currency and banking problems. They see that something is wrong, and accept the suggested remedy largely because nothing else is proposed. The general fall in prices and the demonetisation of silver have been used as arguments for the unlimited coinage of silver; but had the suggested remedy been unlimited fiat paper money, quite as valid arguments would doubtless have been urged.

b. Existing conditions regarding currency and banking in the United States are wrong mainly because in the past politicians have generally regarded popular or untrained opinion. Had the legislators of the United States followed the old maxim, "hold fast that which is good," and as time passed endeavoured to make the good they possessed better, they would now have had a system of banking and currency not essentially different from those of England, France, Germany, Scotland, and Canada. **But the violent policy of Jackson led to the Treasury system, the ruin of branch banking, and the survival only of the weak State banks; and these conditions caused the issue during the war of non-interest-bearing notes for use as money, which was followed by an agitation for fiat paper money, and later by an agitation lasting for twenty years, for the free coinage of silver.**

c. Had the early banking methods been retained, and improved from time to time, there would now exist in the United States many large banking institutions with branches, creating an automatic flow of loanable capital from the points where bank deposits accumulate to the points where loans are most required. There would also exist a paper currency issued only by banks, redeemable in gold, and capable of just the measure of expansion and contraction in its volume necessary for the comfort of trade. With an equitable rate of interest to the borrower, and a suitable and elastic currency, the silver-miners could never have caught the ear of the discontented.

d. The history of banking in Canada shows that a country may have a paper currency supported by a very slight percentage of gold provided the other reasons for its issuance are sound. During the seventy-five years of its existence, except for a few months in a time of rebellion (1837), the bank-note currency of Canada has always been redeemable in gold. **With a sound and elastic currency, and a banking system which ensures an equitable rate for borrowed money, Canada naturally has practically no public discussion on the question of Bimetallism except in the case of the few who imagine that they find a connection between the general fall in prices and the so-called demonetisation of silver.**

Printed and Published by CASSELL & COMPANY, LIMITED, LA BELLE SAUVAGE, LONDON, E.C., and supplied in packets of 100, price 4s.

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